



# Stop Losing Money

Elevate Your Pricing Organization

# Executive Summary

## The Vision

Successful pricing transformation programs are among the quickest and most profitable levers for sustained margin improvement.

Improvements in price fall directly to a company's bottom line, whereas other transformations include costs that erode the overall profitability improvement.

## The Obstacles

Pricing transformation efforts can often fall short as many companies struggle to optimize their pricing power, leaving money on the table and missing out on growth opportunities. Reasons include:

- Pricing is seen as an operational function instead of a strategic one
- Companies often focus on improved data and technology to drive early wins, but underestimate the power of culture to achieve extensive and sustainable growth
- The visibility of the company's Pricing Team in terms of its level and voice within the organization is limited

## The Value

In pricing transformations, when a company moves from Level 1: Cost Plus to Level 5: Value Selling at Scale along the Pricing Maturity Curve, returns are significant. For example, many industries will see a 200-700bps uplift in margin, annually recurring.

## The Solution

High impact actions top leaders within a company can take immediately:



Recruit Executive Talent



Bring that Executive Talent to Peer-parity



Elevate the Pricing Team for Broader Organizational Visibility



Empower and grow the Pricing Team as a CEO's Trusted Advisor

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## Introduction

Every year, companies worldwide are burning a significant amount of investment funds to enact “pricing transformations” with the goal of producing a highly sophisticated and high value generating pricing function.

Successful pricing transformation programs are among the quickest and most profitable levers for sustained margin improvement. Improvements in price fall directly to a company’s bottom line, whereas other transformations include costs that erode the overall profitability improvement.

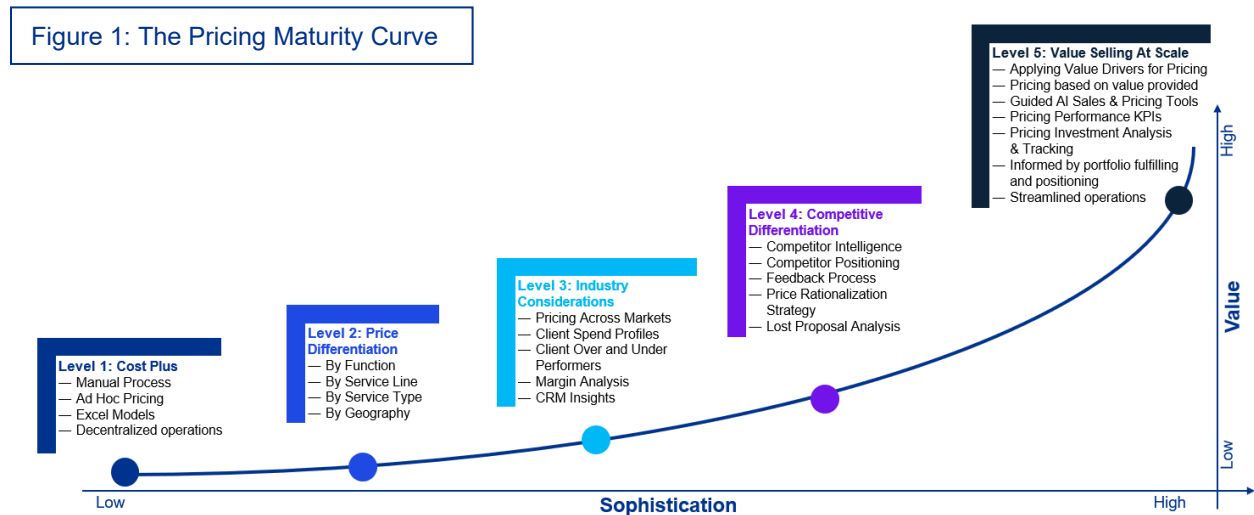
However, these pricing transformation efforts can often fall short as many companies struggle to optimize their pricing power, leaving money on the table and missing out on growth opportunities. This is not due to a lack of agreement that pricing is an important component of growth and should be prioritized or even a lack of funding. Rather, the most common downfall, once a company recognizes the power of price, is not elevating price expertise and insights high enough in the organization to be a sound advisor to top-level decision making in order to make an impact to a company’s pricing culture.

This white paper will explore the typical evolution of pricing culture within a company, the common organizational shifts a pricing department will endure during that evolution, the value of the cultural and organizational evolution, and key actions top-level leaders can directly take today to maximize the value of a pricing transformation within their company.

# The Evolution of Pricing Culture

The typical evolution of pricing culture can't be discussed without first referencing the Pricing Maturity Curve.


Figure 1 is the typical maturity progression pricing will take at a company. As you can see, as pricing progresses along this maturity evolutionary curve and becomes more sophisticated, the value provided to the company increases.




"Stop Losing Money: Elevate Your Pricing Organization", KPMG LLP (US), 2023

Companies and firms began going through this price progression in the 1980's, with accelerated speeds reaching levels 4 and 5 entering into the 2000's as the use of CRM systems and CPQ technology became more common.


All companies and firms seeking to transform their pricing experience follow this progression. However, the rate of speed (and thus value) a company is able to achieve in this progression relies on three main factors:



1. Reliability of company data



2. Implementation of sales and price technology



3. Company culture around pricing

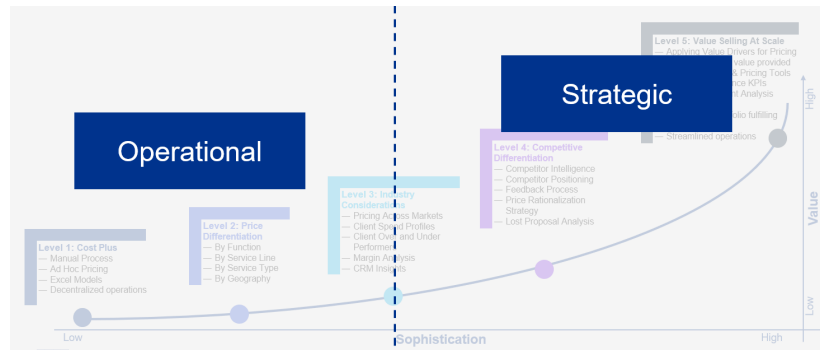
When addressing these three factors in the evolution of price sophistication, attention is prioritized to data and technology improvements. This is common – as data and technology are tangible items, and thus the easiest items to address. While improved data and technology will drive early wins, they will be severely limited if culture is not also addressed concurrently.

What is “pricing culture”? It is a term used to describe a company’s collective mindset of pricing and its power to drive margin in comparison to the other factors of margin: volume, cost, and mix.

Nascent pricing cultures display a “sales hero” mentality, where selling the next deal is of higher value than successfully capturing a client’s willingness to pay. A mature price culture can balance the four drivers of margin successfully, and regards price as an equivalent voice to volume, cost, and mix.

The evolution of a company’s pricing culture can be overlaid directly with the Pricing Maturity Curve, as seen in Figure 2. And, while price culture has various levels based on the maturity of their components, it can be categorized into two camps: An Operational Pricing Culture, and a Strategic Pricing Culture.

Figure 2: The Evolution of Pricing Culture



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At a high level, the components within these two culture categories can also be grouped into three areas: Definition, Recognition and Execution.

**Definition** refers to how a company defines price

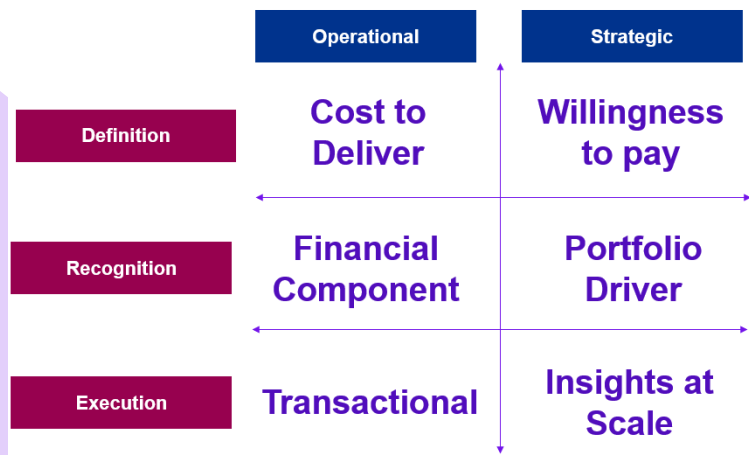
**Recognition** refers to how a company recognizes the impact of price – both internally, and externally

**Execution** refers to how a company capitalizes on price impact

The level of maturity for these three components ranges.

Figure 3: Mindset Around Price

Figure 3 demonstrates the high and low end of the spectrum for these three culture components within the culture categories. In later sections, this paper will provide insight on the value of moving from the low-end to the high-end, and specific actions leaders can take to do so.



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# Organizational Shifts of a Pricing Department

As with pricing culture, the Pricing Team will also evolve during a company's progression along the Pricing Maturity curve.

The evolution of the Pricing Team has two main components: capability and visibility.



**Capability** refers to the tasks and jobs to be done by the pricing team: the tools, insights and results being produced by the group.

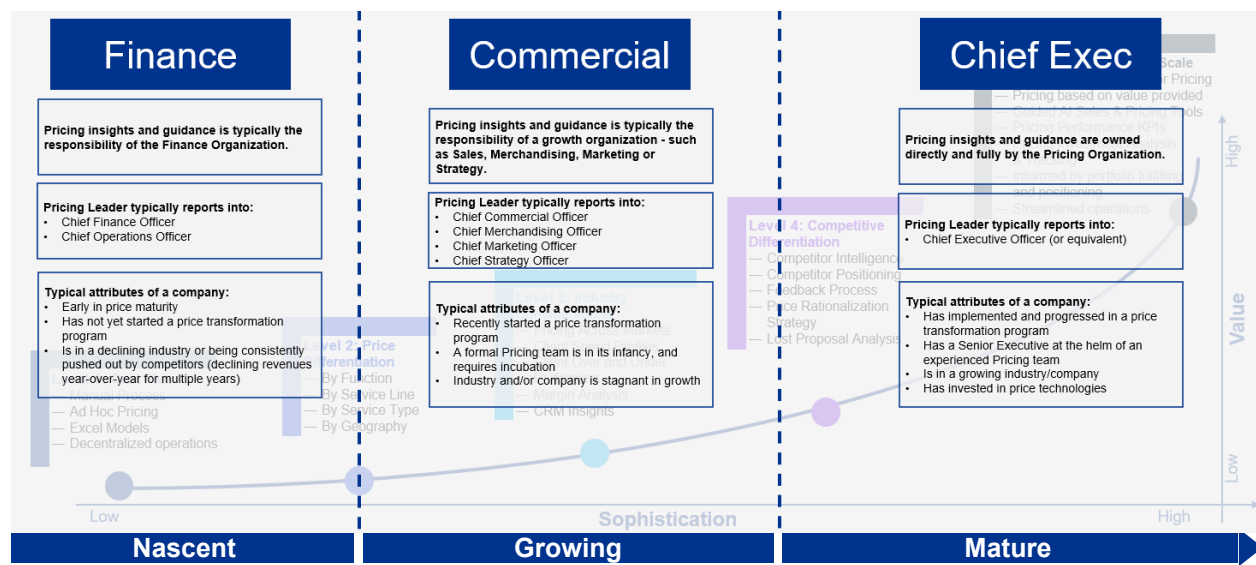


**Visibility** refers to the level within the organization the Pricing Team resides, and how expansive the voice of the group is across the Executive team making the most important business decisions.

While capabilities are critical to success, the most important component when discussing pricing culture is the visibility of the company's Pricing Team, as professional studies have shown visibility is one of the top drivers of impact for a mature pricing culture.

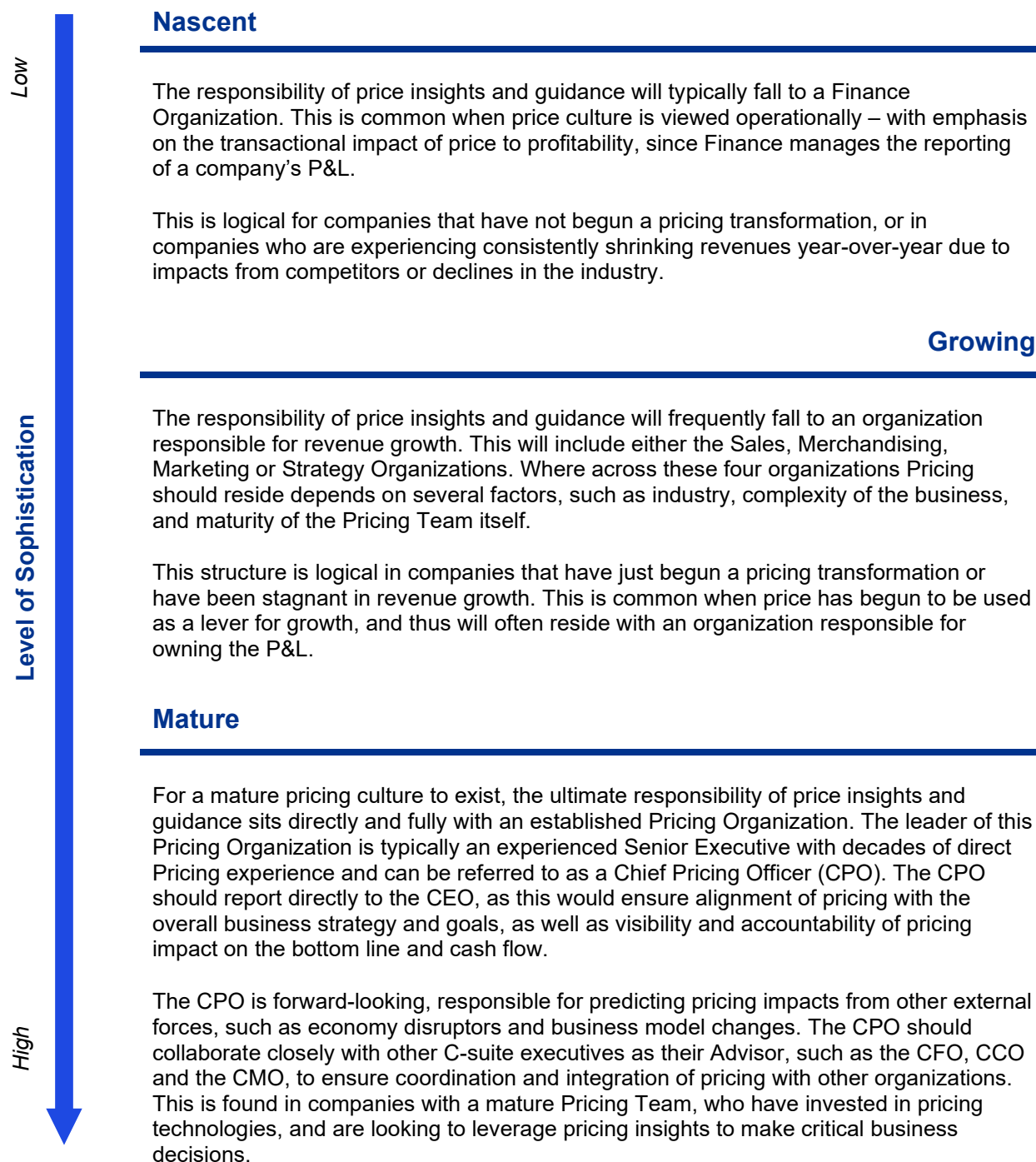
The evolution of the visibility of a Pricing Team can be overlaid directly with the Pricing Maturity Curve, depicted in Figure 4

Figure 4: Evolution of a Pricing Team



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## Pricing Cultures



# The Value

So – what is this evolution worth? The answer depends on several factors – such as the industry, the market conditions, the competitive landscape, the starting point of the company’s pricing maturity, and the scope and scale of the transformation.



Industry



Market Conditions



Competitive Landscape



Starting Point of Pricing Maturity



Scope & Scale of Transformation

In pricing transformations where a company moves from Level 1 to Level 5, returns are significant.

For example, in industries like Industrial Manufacturing, Technology or Professional Services, companies will typically see a 200-700bps sustained improvement in margin. Companies that achieve a successful pricing transformation can enhance their resilience and recovery from challenges and create lasting differentiation from competitors.

That 500bps spread between the low-end and the high-end of the range will depend on the capability for a company to evolve their culture surrounding pricing.

## Actions Top Leaders Need to Take to Elevate Pricing

There are key actions top-level leaders can take to maximize the value of a pricing group within their company. While this list is not all encompassing, the below summarizes the highest impact actions that top leaders within a company have direct control over.

1

**Recruit Executive Talent:** Appoint a Senior Executive with decades of direct pricing strategy, operations, and leadership experience into the Pricing Leader role.

2

**Bring that Executive Talent to Peer-parity:** Name this Senior Executive the Chief Pricing Officer (CPO) to bring peer-parity with the top collaborators of the Pricing Leader.

3

**Elevate the Pricing Team for Broader Organizational Visibility:** It is beneficial for Pricing to reside closely to where critical business decisions are made. Create a direct reporting structure from the Chief Pricing Officer to the CEO.

4

**Empower and grow the Pricing Team as a CEO’s Trusted Advisor:** Value is added to a company when the voice of the CPO is present in C-suite meetings. If company performance or strategy is being discussed, ensure the CPO is present to add perspective.



# Author



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Christina is the co-founder of the central pricing function at KPMG. She has 17 years of strategic pricing and commercial excellence experience in professional services and B2B industries. Christina has built and led internal value-based pricing functions at two of the Big 4s and has also led numerous pricing transformation programs at multi-billion-dollar corporations. Christina is a Certified Pricing Professional and has lectured on the subject of pricing to business school students as well as other pricing professionals at international conferences.

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